Intro to macro notes

Economics, Macroeconomics

A situation In which unlimited wants exceed the Ilmlted resources available to fulfill those wants Economics: The study of the choices people make to attain theirgoals, given their scarce resources. Economic Model: A simplified version of reality used to analyze real-world economic situations.

Often based on unrealistic assumptions that simplify the problem at hand without substantially affecting the validity of the answer No one model can address every important topic, so we will learn diff models as we study difftopics Economic analysis may be positive or normative: Positive analysis: Analysis concerned with what is Positive statements can be evaluated as true or false using only data. For example, " After speeding cameras were Installed on 1-38, the average speed of motorists dec reased. " Normative analysis: Analysis concerned with what ought to be.

Normative statemnts involve personal values, so they cannot be evaluated as true or flase using only data " the governemtn should install addition speeding cameras on 1-380 Economics is studied on two levels: Microeconomics: The study of how households and firms make choices, how they nteract in markets, and how the government attempts to influence their choices. Macroeconomics: The study ot the economy as a whole including topics such as Inflation, unemployment, and economic growth. Micro and macro are closely Interwlned because changes In the overall economy arise from the decisions of individual households and firms.

CHAPTER 2 Trade off: The idea hat because of scarcity, producing more of one good or service means producing less of another good or service PPH A curve snowlng tne maxlmum attalnaDle comDlnatlons 0T two products tn ay

be produced with available resources and currenttechnologyThe PPF is an economic model used to analyze the tradeoffs that individuals firms, and countries face when deciding how to employ their scarce resources. Combinations outside the PPF are unattainable, given the available resources and current technology (scarcity) Combinations inside or on the PPF are attainable, given current shit.

Inside the PPF is ineffificent, reosuces are not being used and possible for economy to produce more of one without making more of other Comibinations of the PPF are efficient because the maximum output obtained from he available resouces are current technology so it is impossible for the economy to produce more of one good without producing less of the other(Trade ofO Oportunity cost: The highest-valued alternative that must be given up to engage in an activity Every choice has an opportunity cost because every choice has a next-best alternative.

In our pPF example near can use all is avaible resources and current technology to produce either 200 laptops per week or 400 tablets per week 200L= 400T so 1 L= 2T and IT= O. L Near's Marginal opportunity cost of 1 laptop is constant at 2 tablets, meaning that for Near to produce 1 more laptop, it must give up producing 2 tablets; inversely, Near's marginal opportunity cost of 1 tablet is constant at one-half of a laptop, meaning that for Near to produce 1 more tablet, it must give up producing one-half of a laptop In the same example, Far can use all resources and currnet technology to produce either 220 laptops per week or 1100 tablets per week 220L= 1100T, so IL-5T and IT=. 2L Fars marginal opportunity cost of 1 laptop

is constant at 5 tablets, and Fars marginal opportunity cost of 1 tablet is constant at one-fifth ofa laptop

A bowed-out PPF illustrates increasing marginal opportunity costs: as the economy increases it production of one good in one-unit increments, it must decrease tis production of the other good by larger and larger amounts (see page 44 of the textbook for a numerical example) I nls occurs Decause some resources are netter sultea to produce one g ratner than the other A bowed-out PPF is more realistic than a straight-line PPF but we use straight-line PPFs for simplicity (the conclusions are the same for both) At any given time, the resources available to an economy are fixed, but over time, the esources available to an economy may increase or decrease.

When an economy gains resources, its PPF shirts outward, and when an economy loses resources , its PPF shifts inward An improvement in technology makes it possible for an economy to produce more goods and services with the same amount of resources, so the economy's PPF shifts outward when technology improves. Economic Growth: The ability of the economy to increase the production of goods and services. Outward shifts of an economys PPF represent economic growth EXAMPLES: illustrate the effect of each of the following on a bowed-out PPF for corn and computers:

Comparative advantage: The ability of an individual, a firm or country to produce a good or service at a lower opportunity cost than competitors Near has the compartative advantage in the production of laptops: Far's marginical opportunity cost of 1 laptop is 5 tablets, while nears marginial oppurnity cost of 1 laptop is only 2 tablets. Far has the comparative

advantage in the production of tablets. Near's marginal opportunity cost of 1 tablet is one-half of a laptop, while far's marginal opportunity cost of 1 tablet is only one-fifth ofa laptop. It is possitble o have the absolute advantage without having comparative advantage n production of that good (far and laptops) It is possible to have comparative advantage without having absolute advantage too. near and laptops) Gains from trade arise form specialization and trade are based on comparative advantage.